

Ambuja Cement | HOLD

Muted realisation growth, cost escalations impact profitability

Ambuja 3QCY17 was below expectations despite volumes witnessing 11.6% growth YoY as cost escalations impacted operating performance. Realisations decline 2.5% sequentially on marginal softening in the cement prices during the quarter. EBITDA/t, reported at INR609/t decline by 10% YoY as freight and raw material cost increase eroded profitability. We believe Ambuja's long term growth is constrained by limited expansion plans (Marwar Mundwa plant still in nascent stage). As a result we expect Ambuja's market share to decline in the interim and see limited upside from current levels. We continue to value the stock at 12x EVE to arrive at TP of INR255 (Sep'18). Maintain HOLD.

- Revenues +15% YoY on higher volumes:** 3QCY17 revenues stood at INR23.2bn growing c.15% YoY (-19% QoQ) on 12%/3% volume/realisation growth. Volume for the quarter stood at 5.02mnT with capacity utilisation at 69%. Realisations were at INR4,557/t growth at 2.9%/-2.5% YoY/QoQ. Realisations declined on a sequential basis on softening cement prices during the quarter, however value based pricing and premium products helped the realisation growth YoY. Company has followed a strategy of focusing on key markets, premium products and value based pricing which helped the sales growth during the quarter.
- Operating profit impacted by muted realisation growth/cost escalations:** Adjusted EBITDA at INR3.1bn (adjustment for DMF provision reversal of INR445mn) was 13% below JMFe. Adj EBITDA/t stood at INR609/t vs. INR677/t during 3QCY16. Decline in EBITDA/t was on account of escalating raw material costs (-INR227/t) and freight costs (-INR37/t impact on EBITDA/t) on higher diesel prices partially offset by better realisation (INR129/t of positive impact) and lower other expenses (INR75/t of positive impact). Power & fuel cost for the quarter was flat on a per tonne basis; sequential growth of 3.5%. Sequentially, EBITDA/t decline from INR1,064/t to INR609/t. PAT at INR2.7bn in 3QCY17 was +10% YoY.
- Other details:** i) Ambuja is setting up a 1.7MTPA greenfield clinker plant at Marwar Mundwa in Rajasthan; we are factoring in its commissioning by CY19 ii) Company has recently won the bid for a limestone block at Harima Pithasar, in Rajasthan with 199.15 MT of mineral reserves. Winning bid was 41.6% of the value of mineral dispatched; iii) Company received the interim dividend of INR1,034mn from ACC during the quarter; iv) On a consolidated basis volumes for the company grew by 15% YoY
- Maintain HOLD:** While demand expected to rise materially in the next one to two years on affordable housing schemes and infrastructure spend, we see limited benefits accruing to Ambuja, as clinker capacity remains a bottleneck. We expect Ambuja to grow at 9.4%/23% in volume/EBITDA terms over CY16-19E, but lower visibility of growth beyond this period could limit the upside. Ambuja is trading at 15.1x/12.0x CY18/19E EV/EBITDA (adjusted for ACC stake). Maintain HOLD as we value Ambuja at 12x EV/E to arrive at a Sep'18 TP of INR255.



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Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	255
Upside/(Downside)	-9.7%
Previous Price Target	255
Change	0.0%

Key Data – ACEM IN

Current Market Price	INR282
Market cap (bn)	INR560.4/US\$8.6
Free Float	30%
Shares in issue (mn)	1,985.7
Diluted share (mn)	1,985.7
3-mon avg daily val (mn)	INR563.1/US\$8.7
52-week range	292/191
Sensex/Nifty	32,607/10,208
INR/US\$	65.1

Price Performance

%	1M	6M	12M
Absolute	4.6	14.4	14.1
Relative*	2.4	4.1	-1.4

* To the BSE Sensex

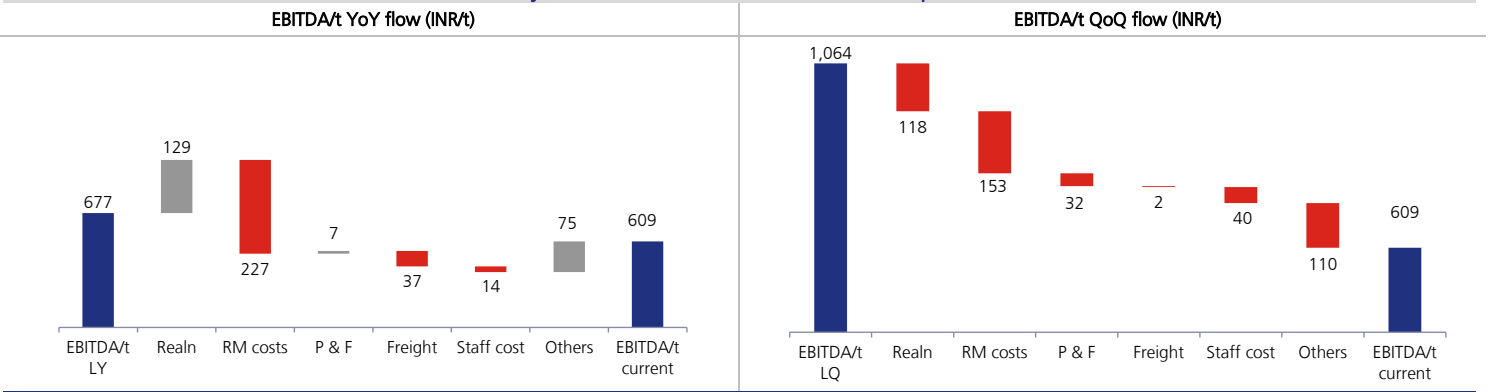
Financial Summary					(INR mn)
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E
Net Sales	93,683	91,604	102,364	119,288	137,384
Sales Growth	-5.5%	-2.2%	11.7%	16.5%	15.2%
EBITDA	15,315	16,827	19,026	25,739	31,336
EBITDA Margin	16.2%	18.2%	18.5%	21.4%	22.6%
Adjusted Net Profit	8,631	9,806	11,816	16,334	21,655
Diluted EPS (INR)	5.6	4.9	6.0	8.2	10.9
Diluted EPS Growth	-34.7%	-11.2%	20.5%	38.2%	32.6%
ROIC	12.4%	12.2%	21.9%	30.8%	44.0%
ROE	8.5%	6.7%	6.2%	8.5%	10.8%
P/E (x)	50.7	57.1	47.4	34.3	25.9
P/B (x)	4.2	2.9	2.9	2.9	2.7
EV/EBITDA (x)	33.3	31.8	27.9	20.3	16.3
Dividend Yield	1.0%	0.9%	1.8%	1.8%	1.8%

Source: Company data, JM Financial. Note: Valuations as of 24/Oct/2017

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
S&P Capital IQ and FactSet

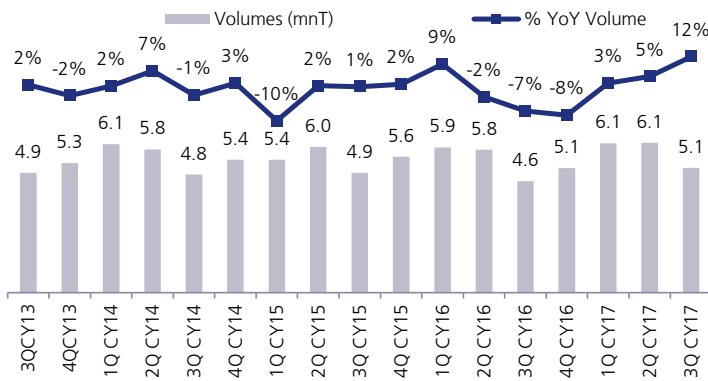
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. EBITDA/t flat: RM cost increase is offset by better realisation and lower other expenses



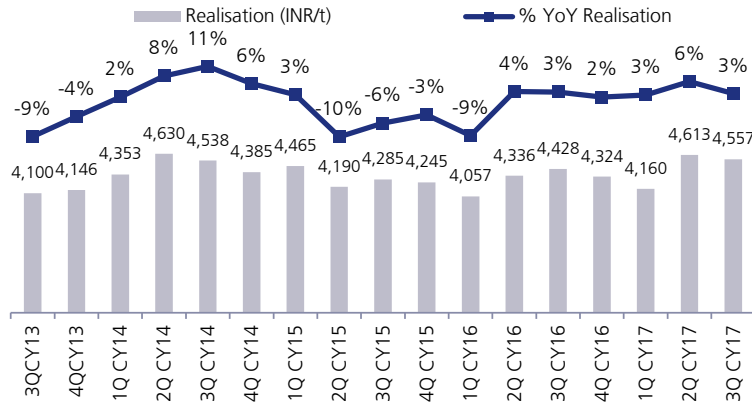
Source: Company, JM Financial | EBITDA/t on adjusted basis

Exhibit 2. Cement volume trends



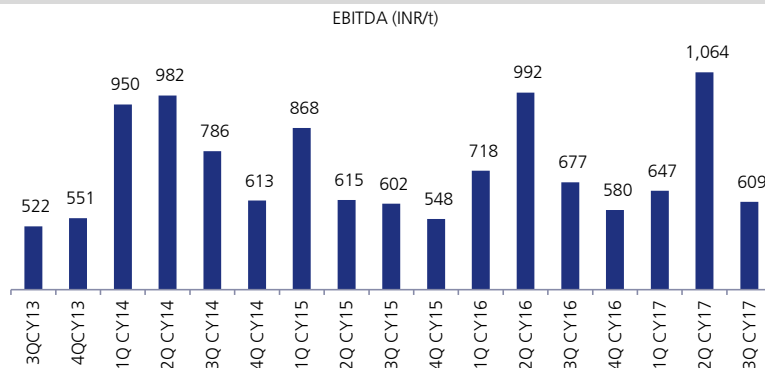
Source: Company, JM Financial

Exhibit 3. Realisation trends



Source: Company, JM Financial

Exhibit 4. EBITDA/t trends



Source: Company, JM Financial | EBITDA/t on adjusted basis

Exhibit 5. Results in brief

	(INR mn)										
	3Q CY17	3Q CY16	%YoY	2Q CY17	%QoQ	9M CY17	9M CY16	%YoY	CY17E	CY16	%YoY
Net sales	23,196	20,149	15.1	28,613	-18.9	77,433	69,722	11.1	102,364	91,688	11.6
Other Operating Income	0	0		0		0	0		512	344	48.9
Total Revenues	23,196	20,149	15.1	28,613	-18.9	77,433	69,722	11.1	102,876	92,032	11.8
Total expenditure	19,653	17,068	15.1	22,102	-11.1	63,438	56,145	13.0	83,851	75,165	11.6
EBITDA	3,544	3,080	15.1	6,510	-45.6	13,995	13,576	3.1	19,026	16,867	12.8
EBITDA Margin (%)	15.3	15.3	-1 bps	22.8	-748 bps	18.1	19.5	-140 bps	18.5	18.3	17 bps
Adjusted EBITDA*	3,098	3,080	0.6	6,510	-52.4						
Other income	1,531	1,736	-11.8	560	173.5	3,110	4,690	-33.7	3,543	5,762	-38.5
Interest (net)	313	198	58.0	165	89.4	855	598	43.0	1,102	734	50.1
Depreciation	1,403	1,592	-11.8	1,439	-2.5	4,302	6,929	-37.9	5,712	8,501	-32.8
PBT	3,359	3,026	11.0	5,466	-38.5	11,949	10,740	11.3	15,755	13,394	17.6
Tax	635	551	15.3	1,544	-58.9	2,837	3,210	-11.6	3,939	3,672	7.3
Effective tax rate (%)	18.9	18.2		28.2		23.7	29.9		25.0	27.4	
PAT (Adjusted)	2,724	2,476	10.0	3,922	-30.5	9,112	7,530	21.0	11,816	9,722	21.5
Exceptional items	0	0		0		0	0		0	0	
PAT (Reported)	2,724	2,476	10.0	3,922	-30.5	9,112	7,530	21.0	11,816	9,722	21.5
EPS (INR)	1.4	1.2	10.0	2.0	-30.5	4.6	3.8	21.0	6.0	4.9	21.5
Ambuja key operational metrics	3Q CY17	3Q CY16	%YoY	2Q CY17	%QoQ	9M CY17	9M CY16	%YoY	CY17E	CY16	%YoY
Cement Sales (mn tonnes)	5.09	4.55	11.9	6.12	-16.8	17.30	16.31	6.1	22.97	21.39	7.4
Realisation (INR/tonne)	4,557	4,428	2.9	4,675	-2.5	4,499	4,298	4.7	4,476	4,312	3.8
EBITDA INR/ tonne	696	677	2.8	1,064	-34.5	809	832	-2.8	806	772	4.3

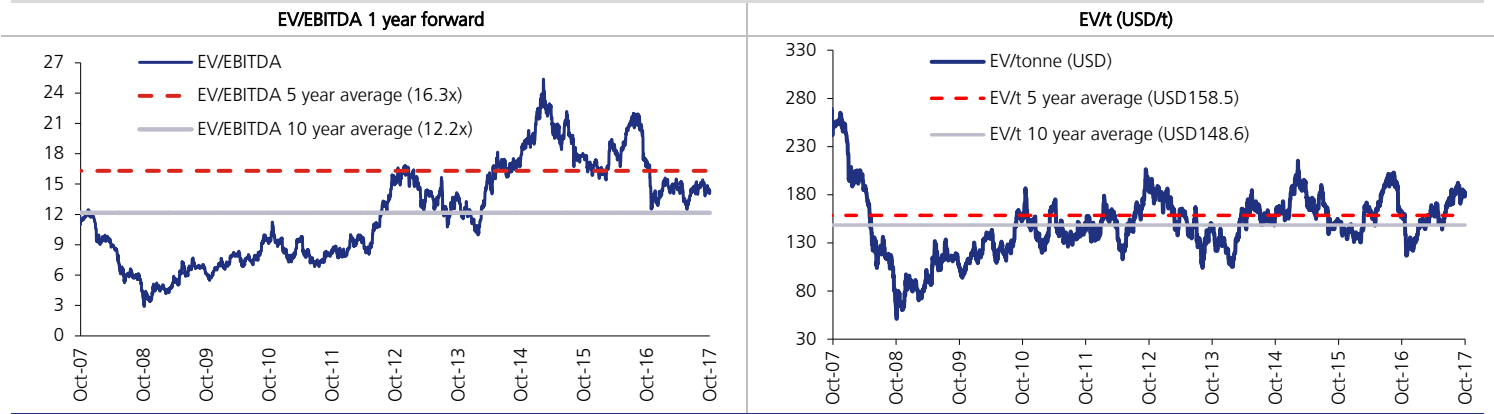
Source: Company, JM Financial | * DMF provision reversal of INR445mn

Exhibit 6. Expenses breakdown

	(INR mn)										
	3Q CY17	3Q CY16	%YoY	2Q CY17	%QoQ	9M CY17	9M CY16	%YoY	CY17E	CY16	%YoY
Raw materials	3,580	2,971	20.5	3,995	-10.4	11,408	10,555	8.1	14,854	13,597	9.2
INR/tonne	703	653	7.7	653	7.7	659	647	1.9	647	636	1.7
Power & Fuel	4,860	4,374	11.1	5,647	-13.9	15,894	14,167	12.2	21,250	18,320	16.0
INR/tonne	955	961	-0.7	923	3.5	919	869	5.8	925	856	8.0
Change in stock	447	-405		-90		668	-1,106		230	-302	
INR/tonne	88	-89	-198.6	-15	-695.4	39	-68	-156.9	10	-14	-170.9
Freight & Fwdg	4,800	4,121	16.5	5,759	-16.6	16,181	14,385	12.5	21,312	18,898	12.8
INR/tonne	943	906	4.1	941	0.2	935	882	6.0	928	884	5.0
Purchase of stock in trade	0	0		0		0	0		0	0	
INR/tonne	0	0		0		0	0		0	0	
Staff cost	1,613	1,378	17.1	1,697	-4.9	4,987	4,419	12.8	6,632	5,905	12.3
INR/tonne	317	303	4.6	277	14.3	288	271	6.4	289	276	4.6
Other Expenditure	4,353	4,630	-6.0	5,096	-14.6	14,301	13,726	4.2	19,572	18,747	4.4
INR/tonne	855	1,018	-16.0	833	2.7	827	842	-1.8	852	876	-2.8
Total Expenditure	19,653	17,068	15.1	22,102	-11.1	63,438	56,145	13.0	83,851	75,165	11.6
Cost per tonne (INR)	3,861	3,751	2.9	3,612	6.9	3,667	3,442	6.5	3,650	3,514	3.9

Source: Company, JM Financial

Exhibit 7. Valuation charts



Source: Company, JM Financial

Company background

- Ambuja Cement, a part of the Holcim Group, is the third-largest cement company in India with total capacity of 29.65MT (Clinker capacity of 17.7MTPA) under its control. It is one of the most profitable and innovative cement companies in India. It is the lowest cost producers of cement with focus on structurally sound markets of the North, West and East. The company has five integrated cement manufacturing plants with 9 kilns and eight cement grinding units across the country.

Key investment arguments

- Ambuja has added only 1.7MT capacity in the past three years and has limited capacity addition plans over the medium term; 1.7MTPA greenfield unit at Marwar Mundhwa which is at nascent stage. The company has been losing its market share (decline from 8.5% in CY13 to 7.4% in CY16).
- With Ambuja's current clinker utilisation at 80%, the company's growth is contingent on further expansion. With demand expected to rise materially in the next one to two years, we see limited benefits accruing to Ambuja, as clinker capacity is fully utilised over the next two years.
- Ambuja is trading at 15.1/12x CY18/19E EV/E. With growth constrained by capacity, no expansion plans and losing market share we see a limited upside for Ambuja from current levels.

Valuation and view

- We continue to value Ambuja at 12x EV/E to arrive at a Sep'18 TP of INR 255. Currently, the stock is trading at CY18/19E EV/E 15.1x/12x (adjusted for ACC stake). Maintain HOLD.

Key risks to our call

- (1) Execution of capacity expansion will help Ambuja tap the demand uptick and remove clinker capacity constraint; and (2) more-than-expected price hikes will augur well for the company.

Exhibit 8. Volumes, realisation and cost outlook

	CY15	CY16	CY17E	CY18E	CY19E
Cement Sales (mn tonnes)	21.8	21.4	23.0	25.2	27.9
YoY Growth (%)	-1.7	-1.7	7.4	9.9	10.7
Cement Realisations (INR/tonne)	4,303	4,283	4,456	4,725	4,917
YoY Growth (%)	-3.8	-0.5	4.0	6.1	4.0
Power & Fuel (INR/tonne)	943	856	925	962	991
Freight (INR/tonne)	861	884	928	965	1,003
Raw Material (INR/tonne)	368	363	374	385	397
Cement EBIDTA (INR/tonne)	661	736	806	972	1,072

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement					
	(INR mn)				
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E
Net Sales	93,683	91,604	102,364	119,288	137,384
Sales Growth	-5.5%	-2.2%	11.7%	16.5%	15.2%
Other Operating Income	931	1,074	512	1,193	1,374
Total Revenue	94,614	92,678	102,876	120,481	138,758
Cost of Goods Sold/Op. Exp	8,267	7,465	8,822	9,851	11,231
Personnel Cost	5,895	5,937	6,632	7,506	8,557
Other Expenses	65,137	62,449	68,397	77,385	87,634
EBITDA	15,315	16,827	19,026	25,739	31,336
EBITDA Margin	16.2%	18.2%	18.5%	21.4%	22.6%
EBITDA Growth	-20.6%	9.9%	13.1%	35.3%	21.7%
Depn. & Amort.	6,257	8,501	5,712	7,869	8,019
EBIT	9,058	8,326	13,313	17,869	23,316
Other Income	3,582	5,762	3,543	5,801	7,679
Finance Cost	918	715	1,102	1,190	1,281
PBT before Excep. & Forex	11,722	13,373	15,755	22,480	29,715
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	11,722	13,373	15,755	22,480	29,715
Taxes	3,091	3,567	3,939	6,146	8,060
Extraordinary Inc./Loss(-)	-556	-105	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	8,076	9,701	11,816	16,334	21,655
Adjusted Net Profit	8,631	9,806	11,816	16,334	21,655
Net Margin	9.1%	10.6%	11.5%	13.6%	15.6%
Diluted Share Cap. (mn)	1,551.9	1,985.7	1,985.7	1,985.7	1,985.7
Diluted EPS (INR)	5.6	4.9	6.0	8.2	10.9
Diluted EPS Growth	-34.7%	-11.2%	20.5%	38.2%	32.6%
Total Dividend + Tax	5,230	5,742	11,616	11,616	11,616
Dividend Per Share (INR)	2.8	2.5	5.0	5.0	5.0

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E
Shareholders' Fund	103,069	190,736	190,936	195,654	205,692
Share Capital	3,104	3,971	3,971	3,971	3,971
Reserves & Surplus	99,965	186,764	186,964	191,683	201,721
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	233	132	132	132	132
Def. Tax Liab. / Assets (-)	5,649	4,930	4,930	4,930	4,930
Total - Equity & Liab.	108,951	195,797	195,997	200,716	210,754
Net Fixed Assets	65,062	62,987	61,379	60,930	59,225
Gross Fixed Assets	120,127	152,888	155,888	158,888	161,888
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	59,206	93,102	98,814	106,684	114,703
Capital WIP	4,141	3,200	4,305	8,725	12,040
Investments	22,261	129,097	129,097	129,097	129,097
Current Assets	54,297	40,458	46,112	56,103	72,853
Inventories	8,955	9,375	10,429	12,213	14,066
Sundry Debtors	2,864	3,001	3,382	3,961	4,562
Cash & Bank Balances	28,484	14,129	18,348	25,975	40,272
Loans & Advances	9,411	9,836	9,836	9,836	9,836
Other Current Assets	4,583	4,118	4,118	4,118	4,118
Current Liab. & Prov.	32,669	36,746	40,592	45,415	50,422
Current Liabilities	6,893	9,206	13,052	17,875	22,882
Provisions & Others	25,776	27,540	27,540	27,540	27,540
Net Current Assets	21,628	3,713	5,520	10,688	22,431
Total - Assets	108,951	195,797	195,997	200,716	210,754

Source: Company, JM Financial

Cash Flow Statement					
	(INR mn)				
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E
Profit before Tax	11,722	13,373	15,755	22,480	29,715
Depn. & Amort.	6,257	8,501	5,712	7,869	8,019
Net Interest Exp. / Inc. (-)	918	715	1,102	1,190	1,281
Inc (-) / Dec in WCap.	228	358	2,412	2,460	2,554
Others	-506	-5,226	-3,543	-5,801	-7,679
Taxes Paid	-3,091	-3,567	-3,939	-6,146	-8,060
Operating Cash Flow	15,528	14,154	17,499	22,053	25,829
Capex	-6,169	-3,832	-4,105	-7,420	-6,315
Free Cash Flow	9,360	10,322	13,394	14,633	19,514
Inc (-) / Dec in Investments	1,457	-33,108	0	0	0
Others	3,882	2,913	3,543	5,801	7,679
Investing Cash Flow	-829	-34,026	-562	-1,619	1,364
Inc / Dec (-) in Capital	256	0	0	0	0
Dividend + Tax thereon	-8,941	-6,478	-11,616	-11,616	-11,616
Inc / Dec (-) in Loans	36	41	0	0	0
Others	-2,148	11,954	-1,102	-1,190	-1,281
Financing Cash Flow	-10,796	5,517	-12,718	-12,806	-12,897
Inc / Dec (-) in Cash	3,903	-14,355	4,219	7,628	14,297
Opening Cash Balance	24,581	28,484	14,129	18,348	25,975
Closing Cash Balance	28,484	14,129	18,348	25,975	40,272

Source: Company, JM Financial

Dupont Analysis					
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E
Net Margin	9.1%	10.6%	11.5%	13.6%	15.6%
Asset Turnover (x)	0.9	0.6	0.5	0.6	0.7
Leverage Factor (x)	1.1	1.0	1.0	1.0	1.0
RoE	8.5%	6.7%	6.2%	8.5%	10.8%

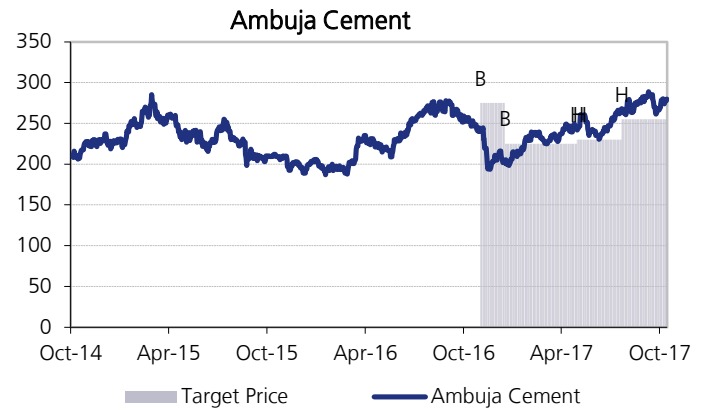
Key Ratios					
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E
BV/Share (INR)	66.4	96.1	96.2	98.5	103.6
ROIC	12.4%	12.2%	21.9%	30.8%	44.0%
ROE	8.5%	6.7%	6.2%	8.5%	10.8%
Net Debt/Equity (x)	-0.5	-0.1	-0.2	-0.2	-0.2
P/E (x)	50.7	57.1	47.4	34.3	25.9
P/B (x)	4.2	2.9	2.9	2.9	2.7
EV/EBITDA (x)	33.3	31.8	27.9	20.3	16.3
EV/Sales (x)	5.4	5.8	5.2	4.3	3.7
Debtor days	11	12	12	12	12
Inventory days	35	37	37	37	37
Creditor days	31	43	56	68	77

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (INR)	% Chg.	FY19E EPS (INR)	% Chg.	Target Price	% Chg.
3-Nov-16	8.7		11.7		275	
19-Dec-16	6.4	-26.4	9.1	-22.2	225	-18.2
2-May-17	5.6	-12.5	8.1	-11.0	230	2.2
7-May-17	5.6	0.0	8.1	0.0	230	0.0
24-Jul-17	5.7	1.8	8.1	0.0	255	10.9

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

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Rating	Meaning
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Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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